

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name County of Cheboygan		County Cheboygan
Audit Date 12/31/04	Opinion Date 5/13/05		Date Accountant Report Submitted to State: 6/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised
2. We are certified public accountants registered to practice in Michigan

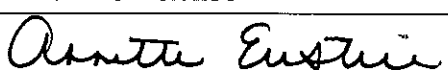
We further affirm the following "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95) |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGR)	✓		

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 South Huron St. PO Box 250		City Cheboygan	State MI
		ZIP 49721	
Accountant Signature 			Date 6/29/05

County of Cheboygan

Cheboygan, Michigan



Financial Statements

**For the Year Ended
December 31, 2004**

COUNTY OF CHEBOYGAN

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	I-X
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4-5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
General Fund	10
State Shared Revenue Reserve	11
Housing Commission	12
Statement of Net Assets – Proprietary Funds	13
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	14
Statement of Cash Flows – Proprietary Funds	15-16
Statement of Fiduciary Net Assets – Agency Funds	17
Notes to Financial Statements	18-43

COUNTY OF CHEBOYGAN

TABLE OF CONTENTS

	<u>PAGE</u>
Supplementary Information	
Detail Schedule of Expenditures and Other Financing Uses – Budget and Actual – General Fund	44-45
Combining Balance Sheet – Nonmajor Governmental Funds	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	47
Combining Balance Sheet – Nonmajor Special Revenue Funds	48-50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	51-53
Combining Statement of Net Assets – Nonmajor Enterprise Funds	54
Combining Statement of Revenues, Expenses and Changes in Net Assets – Nonmajor Enterprise Funds	55
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	56-57
Combining Statement of Fiduciary Net Assets – Agency Funds	58
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	59-60
 Single Audit Section	
Schedule of Expenditures of Federal Awards	61-62
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>; No Reportable Instances of Noncompliance or Other Matter	63-64
Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A–133	65-66
Schedule of Findings and Questioned Costs	67



INDEPENDENT AUDITORS' REPORT

May 13, 2005

Board of Commissioners
County of Cheboygan
Cheboygan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **County of Cheboygan, Michigan** (the "County"), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the County of Cheboygan Road Commission component unit, which represents 100% of the total assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the County, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I through X is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of **County of Cheboygan, Michigan** (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2004 by \$20,176,061 (*net assets*). Of this \$9,974,654 (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County revenue was modified during 2004 due to state legislation which changed the property tax levy for Michigan taxpayers. The impact of Public Act 357 of 2004 to the County is that property taxes will be collected and a portion of the money will be set aside in a revenue sharing reserve fund. The State controls how the money can be transferred back to the General Fund for operations. This amount in theory is intended to replace the state revenue sharing money that has been paid by the State as a portion of the sales tax revenue pursuant to Proposal A. The impact of this proposal, which gradually shifts the levy from December to July will increase each year and peak in 2007. This will significantly impact the cash flow of the county at that time. The County now maintains a State Revenue Reserve Fund as a governmental fund.
- The County construction project for the Sewer, in partnership with Inverness Township was nearly completed in 2004. The project was funded in part by a U.S. Environmental Protection Agency hardship grant, Michigan Department of Transportation grant, and U.S. Department of Agriculture Rural Development loan and will be supported by user fees and Downtown Development Authority tax growth. The impact to the financial statements continues to be the Inverness Township Sewer Debt Fund and the Sewer Capital Projects Fund as governmental funds.
- The County Road Commission component unit built a new garage in 2004 and financed the project through MTF Bonds. The debt and bond proceeds of \$3,060,000 are presented in the component unit because the revenue to repay this debt is County Road proceeds. A portion of the proceeds in a trust and agency fund will be held by the County to make the bond payments.
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$1,778,485 or 20% of the total General Fund expenditures and transfers.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include legislative, judicial, general government, public safety, health and welfare, recreation and culture and other. The business-type activities include the marina, delinquent tax collections, Straits Regional Ride, jail commissary operations, and tax foreclosures.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also the Cheboygan County Road Commission, a legally separate component unit for which the County is financially accountable. The Road Commission issued separate audited financial statements including a management discussion and analysis. In the government-wide financial statements, financial information for the Cheboygan County Road Commission is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 3-5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 39 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, State Revenue Sharing Reserve, Housing Commission, and Inverness Township Sewer Debt Service Fund, each of which are considered to be major funds. Data from the other 35 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

The basic *governmental fund* financial statements can be found on pages 6-12 this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its marina, delinquent tax collections, Straits Regional Ride, jail commissary operations, and tax foreclosures.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Marina and Delinquent Tax Revolving Funds, which are considered major funds of the County. Individual fund data for the non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 13-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* including the combining statements referred to earlier in connection with nonmajor governmental, proprietary and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 44-60 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$20,176,061 at the close of fiscal year 2004 compared to \$17,628,173 at the close of 2003.

Investment in capital assets (e.g., land, buildings, vehicles, equipment and docks), less any related debt used to acquire those assets that is still outstanding represents approximately 43% of the County's net assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets* (\$10,479,260) for 2004 may be used to meet the government's ongoing obligation to citizens and creditors.

County of Cheboygan Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Cash and other assets	\$13,034,285	\$12,505,215	\$ 6,511,583	\$ 6,262,032	\$19,545,868	\$18,767,247
Capital assets, net of accumulated depreciation	<u>7,444,844</u>	<u>7,578,084</u>	<u>1,656,231</u>	<u>1,772,095</u>	<u>9,101,075</u>	<u>9,350,179</u>
Total assets	<u>20,479,129</u>	<u>20,083,299</u>	<u>8,167,814</u>	<u>8,034,127</u>	<u>28,646,943</u>	<u>28,117,426</u>
Liabilities						
Current and other liabilities	7,869,134	9,625,279	70,032	67,006	7,939,166	9,692,285
Long-term debt, net of current portion	<u>531,716</u>	<u>796,968</u>	<u>-</u>	<u>-</u>	<u>531,716</u>	<u>796,968</u>
Total liabilities	<u>8,400,850</u>	<u>10,422,247</u>	<u>70,032</u>	<u>67,006</u>	<u>8,470,882</u>	<u>10,489,253</u>
Net assets						
Invested in capital assets, net of related debt	6,993,655	6,965,346	1,656,231	1,772,095	8,649,886	8,737,441
Restricted – State Revenue Sharing Reserve	1,551,521	-	-	-	1,551,521	-
Unrestricted	<u>3,533,103</u>	<u>2,695,706</u>	<u>6,441,551</u>	<u>6,195,026</u>	<u>9,974,654</u>	<u>8,890,732</u>
Total net assets	<u>\$12,078,279</u>	<u>\$ 9,661,052</u>	<u>\$ 8,097,782</u>	<u>\$ 7,967,121</u>	<u>\$20,176,061</u>	<u>\$17,628,173</u>

At the end of the current fiscal year, the County is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's total net assets increased \$2,491,954 during the current fiscal year.

County of Cheboygan
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues						
Charges for services	\$ 2,183,523	\$ 2,080,238	\$ 1,181,025	\$ 1,234,080	\$ 3,364,548	\$ 3,314,318
Operating grants and contributions	3,176,085	2,566,436	456,189	339,224	3,632,274	2,905,660
Capital grants and contributions	439,340	3,485,131	-	-	439,340	3,485,131
General revenues						
Property taxes	7,775,637	5,702,627	-	-	7,775,637	5,702,627
Cigarette tax	15,210	15,906	-	-	15,210	15,906
Convention and tourism tax	70,573	67,994	-	-	70,573	67,994
Local contribution	10,331	-	-	-	10,331	-
State shared revenue not restricted to specific programs	156,988	463,108	-	-	156,988	463,108
Grants and contributions not restricted to specific programs	354,391	133,668	-	-	354,391	133,668
Unrestricted interest income	<u>38,745</u>	<u>27,355</u>	<u>-</u>	<u>-</u>	<u>38,745</u>	<u>27,355</u>
Total revenues	<u>14,220,823</u>	<u>14,542,463</u>	<u>1,637,214</u>	<u>1,573,304</u>	<u>15,858,037</u>	<u>16,115,767</u>
Expenses						
Legislative	134,276	124,585	-	-	134,276	124,585
Judicial	2,337,008	2,329,459	-	-	2,337,008	2,280,416
General government	2,791,237	2,601,011	-	-	2,791,237	2,601,011
Public safety	3,118,354	2,902,731	-	-	3,118,354	2,902,731
Health and welfare	3,234,562	5,961,952	-	-	3,234,562	347,230
Recreation and culture	285,677	298,192	-	-	285,677	5,961,952
Other	210,478	107,931	-	-	210,478	107,931
Interest on long-term debt	24,817	24,939	-	-	24,817	24,939
Marina	-	-	520,014	469,706	520,014	469,706
Delinquent tax revolving	-	-	15,503	16,798	15,503	16,798
Straits Regional Ride	-	-	627,353	621,233	627,353	621,233
Jail commissary operations	-	-	6,057	-	6,057	-
Tax foreclosure	<u>-</u>	<u>-</u>	<u>60,747</u>	<u>55,322</u>	<u>60,747</u>	<u>55,322</u>
Total expenses	<u>12,136,409</u>	<u>14,350,795</u>	<u>1,229,674</u>	<u>1,163,059</u>	<u>13,366,083</u>	<u>15,513,854</u>

County of Cheboygan
Changes in Net Assets (Concluded)

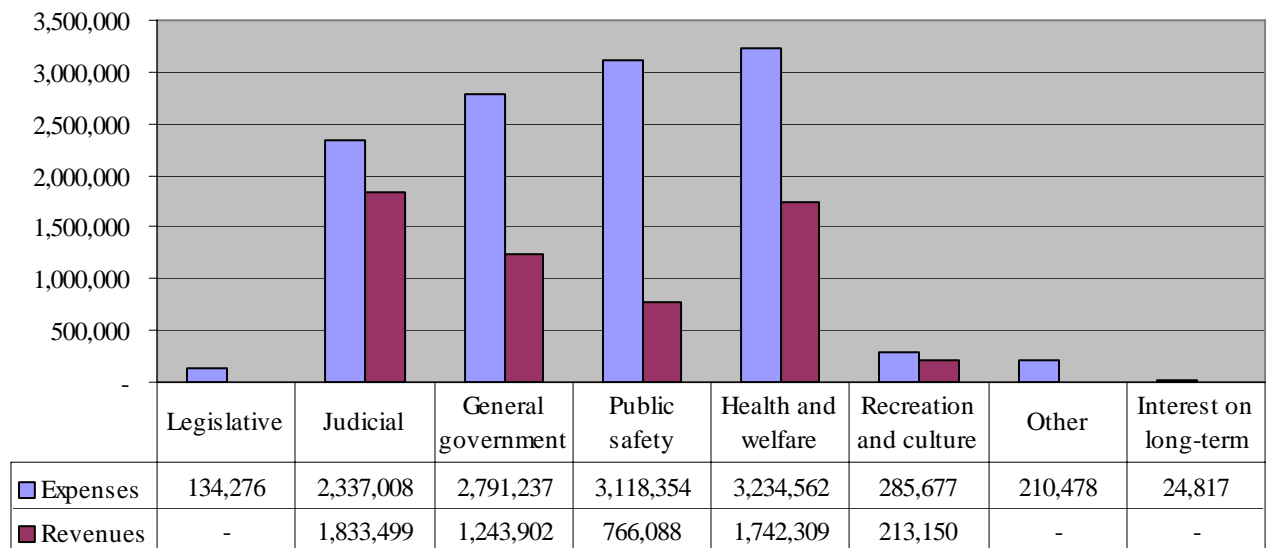
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Increase in net assets before transfers	\$ 2,084,414	\$ 191,668	\$ 407,540	\$ 410,245	\$ 2,491,954	\$ 601,913
Transfers - internal activities	<u>362,039</u>	<u>408,598</u>	<u>(362,039)</u>	<u>(408,598)</u>	<u>-</u>	<u>-</u>
Increase in net assets	2,446,453	600,266	45,501	1,647	2,491,954	601,913
Net assets - beginning of year	9,661,052	9,060,786	7,967,121	7,965,474	17,628,173	17,026,260
Prior period adjustment	<u>(29,226)</u>	<u>-</u>	<u>85,160</u>	<u>-</u>	<u>55,934</u>	<u>-</u>
Net assets - beginning of year, as restated	<u>9,631,826</u>	<u>-</u>	<u>8,052,281</u>	<u>-</u>	<u>17,684,107</u>	<u>-</u>
Net assets - end of year	<u>\$12,078,279</u>	<u>\$ 9,661,052</u>	<u>\$ 8,097,782</u>	<u>\$ 7,967,121</u>	<u>\$20,176,061</u>	<u>\$17,628,173</u>

Governmental activities. Governmental activities increased the County's net assets by \$2,446,453, accounting for significantly all of the total increase in the net assets of the County.

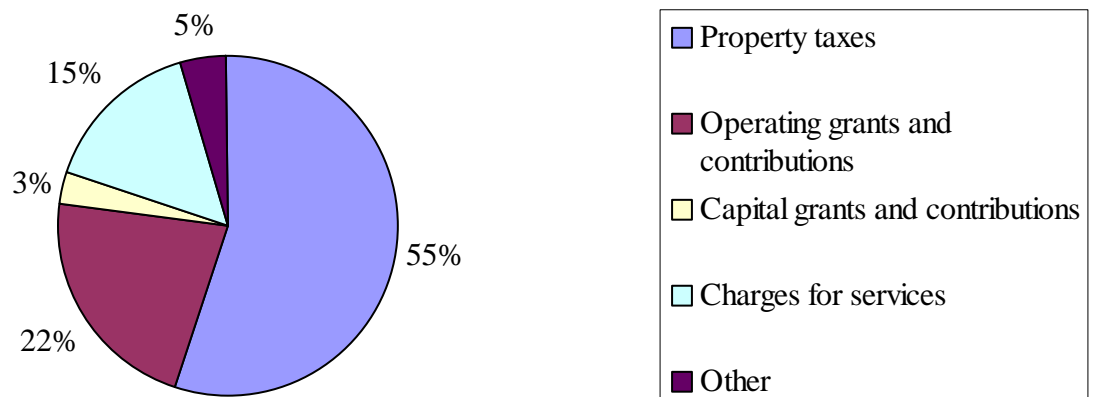
Key elements of this increase result from PA 357 of 2004 and the State Revenue Sharing Reserve Fund that it created. The property tax revenue for 2004 was levied in December 2004. However, one third of this amount was required to be set aside in a separate fund and is reserved for future transfers to the General Fund as outlined in PA 357 of 2004. The impact of this is that instead of showing a tax receivable offset by a deferred revenue, the tax receivable for the 1/3 was offset by revenue. This accounted for \$1,835,891 of the increase in the net asset balance.

The large decreases in capital grants in program revenue and health and welfare expenses from 2003 to 2004 are attributable to the Inverness Sewer Project. The sewer project was actively being constructed during 2003. Although these decreases did not significantly impact to net assets, the individual categories of revenue and expenses did fluctuate largely.

Expenses and Program Revenues - Governmental Activities

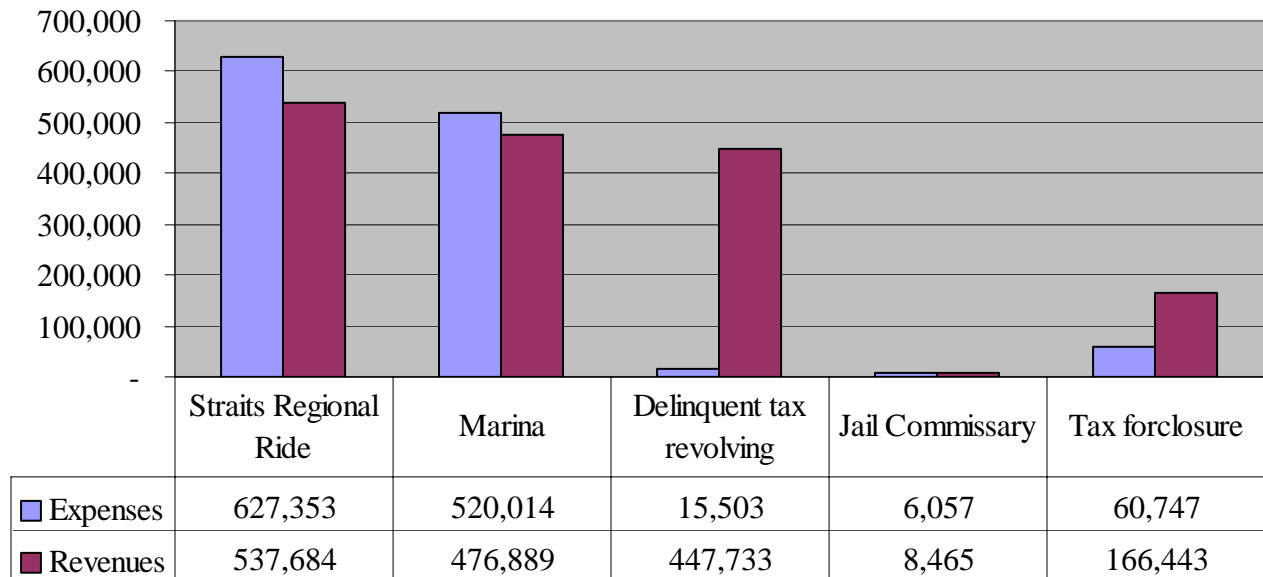


Revenues by Source - Governmental Activities

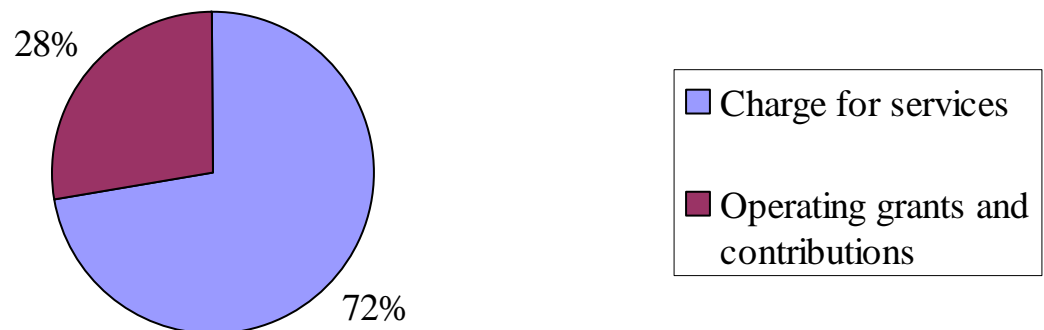


Business-type activities. Business-type activities increased the County's net assets by \$45,501, accounting for approximately 2 percent of the total increase in the County's net assets for fiscal year 2004, compared to \$1,644 or less than 1% for 2003.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the County. The General Fund balance increased by \$343,266 from \$1,487,504 to \$1,830,770 during 2004 due mainly to conservative spending. Although revenue increased only 3% in the General Fund, through transfers in from the tax revolving fund and conservative spending, the County increased the General Fund balance by approximately 23%.

Proprietary funds. The County *proprietary fund statements* provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The amended budget differed from the originally adopted budget mainly because of changes in grant revenue, which were generally matched with expenditures. One large grant was homeland security which accounted for the majority of the revenue budget amendments. The expenditure budget was adjusted in part for the large homeland security grant and also because of some minor programming changes.

Capital Asset and Debt Administration

Capital assets. The County defines a capital asset as an asset whose cost exceeds \$5,000 and useful life is greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

County of Cheboygan Capital Assets (net of depreciation, where applicable)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 3,218,280	\$ -	\$ 3,218,280
Buildings and improvements	3,730,586	310,064	4,040,650
Land improvements	29,417	645,446	674,863
Machinery and equipment	305,569	30,877	336,446
Transportation equipment	160,992	384,616	545,608
Docks	-	285,228	285,228
Total capital assets	<u>\$ 7,444,844</u>	<u>\$ 1,656,231</u>	<u>\$ 9,101,075</u>

Additional information on the County capital assets can be found in Note 3C on pages 29-31 of this report.

Debt administration. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund.

Long-term debt. Debt is classified as long-term if the debt matures in a period greater than one year. The County entered into an agreement with Inverness Township for the Inverness Township Sewer Project. The Township pledged its full faith and credit for the repayment of the loan; therefore, this debt is not included in the County's financial statements.

Additional information on the County long-term debt can be found in Note 3F on pages 34-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The County continues to budget in anticipation of State and Federal budget cuts with less grant and other funding from these sources. The State Revenue Sharing Reserve will continue to impact the County budget and in particular the cash flow, until it is fully implemented. The 2005 General Fund budget is \$9.5 million and maintains essentially the same programming as 2004.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Administrative Office, County of Cheboygan, Michigan, 870 S. Main, PO Box 70, Cheboygan, Michigan, 49721.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF CHEBOYGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,281,243	\$ 4,971,952	\$ 7,253,195	\$ 960,678
Receivables	10,693,507	1,241,970	11,935,477	1,032,690
Internal balances	52,285	(52,285)	-	-
Prepaid items and inventory	-	20,735	20,735	965,007
Restricted assets	7,250	329,211	336,461	-
Capital assets not being depreciated	3,218,280	-	3,218,280	7,266,491
Capital assets, net of accumulated depreciation	4,226,564	1,656,231	5,882,795	13,890,414
Total assets	20,479,129	8,167,814	28,646,943	24,115,280
Liabilities				
Accounts payable and accrued expenses	294,641	40,032	334,673	323,594
Unearned revenue	7,402,717	-	7,402,717	-
Advance from other governmental units	-	30,000	30,000	488,456
Long-term liabilities				
Due within one year	171,776	-	171,776	55,000
Due in more than one year	531,716	-	531,716	3,332,610
Total liabilities	8,400,850	70,032	8,470,882	4,199,660
Net assets				
Invested in capital assets, net of related debt	6,993,655	1,656,231	8,649,886	18,096,905
Restricted				
Primary/local roads	-	-	-	1,340,159
State Revenue Sharing Reserve	1,551,521	-	1,551,521	-
Unrestricted	3,533,103	6,441,551	9,974,654	478,556
Total net assets	\$ 12,078,279	\$ 8,097,782	\$ 20,176,061	\$ 19,915,620

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 134,276	\$ -	\$ -	\$ -	\$ (134,276)
Judicial	2,337,008	743,751	1,089,748	-	(503,509)
General government	2,791,237	853,807	390,095	-	(1,547,335)
Public safety	3,118,354	295,239	288,227	182,622	(2,352,266)
Health and welfare	3,234,562	77,576	1,408,015	256,718	(1,492,253)
Recreation and culture	285,677	213,150	-	-	(72,527)
Other	210,478	-	-	-	(210,478)
Interest on long-term debt	24,817	-	-	-	(24,817)
Total governmental activities	<u>12,136,409</u>	<u>2,183,523</u>	<u>3,176,085</u>	<u>439,340</u>	<u>(6,337,461)</u>
Business-type activities					
Marina	520,014	473,352	3,537	-	(43,125)
Delinquent tax revolving	15,503	350,418	97,315	-	432,230
Straits Regional Ride	627,353	182,347	355,337	-	(89,669)
Jail commissary operations	6,057	8,465	-	-	2,408
Tax foreclosure	60,747	166,443	-	-	105,696
Total business-type activities	<u>1,229,674</u>	<u>1,181,025</u>	<u>456,189</u>	<u>-</u>	<u>407,540</u>
Total primary government	<u>\$ 13,366,083</u>	<u>\$ 3,364,548</u>	<u>\$ 3,632,274</u>	<u>\$ 439,340</u>	<u>\$ (5,929,921)</u>
Component unit					
Road Commission	<u>\$ 6,956,034</u>	<u>\$ 1,994,073</u>	<u>\$ 6,065,235</u>	<u>\$ -</u>	<u>\$ 1,103,274</u>

Continued...

COUNTY OF CHEBOYGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (6,337,461)	\$ 407,540	\$ (5,929,921)	\$ 1,103,274
General revenues				
Property taxes	7,775,637	-	7,775,637	-
Cigarette tax	15,210	-	15,210	-
Convention and tourism tax	70,573	-	70,573	-
Local contribution	10,331	-	10,331	-
State shared revenue not restricted to specific programs	156,988	-	156,988	-
Grants and contributions not restricted to specific programs	354,391	-	354,391	-
Unrestricted interest income	38,745	-	38,745	-
Transfers - internal activities	362,039	(362,039)	-	-
Total general revenues and transfers	8,783,914	(362,039)	8,421,875	-
Change in net assets	2,446,453	45,501	2,491,954	1,103,274
Net assets, beginning of year	9,661,052	7,967,121	17,628,173	18,812,346
Prior period adjustment	(29,226)	85,160	55,934	-
Net assets, beginning of year, as restated	9,631,826	8,052,281	17,684,107	18,812,346
Net assets, end of year	\$ 12,078,279	\$ 8,097,782	\$ 20,176,061	\$ 19,915,620

Concluded

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

COUNTY OF CHEBOYGAN

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	General	State Revenue Sharing Reserve	Housing Commission	Inverness Township Sewer Debt Service
ASSETS				
Cash and cash equivalents	\$ 1,412,573	\$ -	\$ 93,577	\$ 3,081
Taxes receivable	3,671,783	1,835,892	-	-
Accounts receivable	11,822	-	-	-
Due from other funds	319,725	-	-	-
Due from other governmental units	183,366	-	70,509	-
Lease receivable	-	-	-	3,232,000
Loans receivable	-	-	960,484	-
Reserved cash	-	-	-	7,250
Advance to other funds	52,285	-	-	-
Total assets	\$ 5,651,554	\$ 1,835,892	\$ 1,124,570	\$ 3,242,331
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 71,259	\$ -	\$ 114	\$ -
Accrued expenses	77,742	-	-	-
Deferred revenue	3,671,783	-	963,009	3,232,000
Due to other funds	-	284,371	29,054	-
Due other governmental units	-	-	-	-
Total liabilities	3,820,784	284,371	992,177	3,232,000
Fund balances				
Reserved				
Advance to other funds	52,285	-	-	-
Revenue Sharing Reserve	-	1,551,521	-	-
Unreserved				
Designated				
Subsequent years' expenditures reported in special revenue funds	-	-	40,389	-
Capital projects	-	-	-	-
Undesignated	1,778,485	-	92,004	10,331
Undesignated, reported in nonmajor special revenue funds	-	-	-	-
Total fund balances	1,830,770	1,551,521	132,393	10,331
Total liabilities and fund balances	\$ 5,651,554	\$ 1,835,892	\$ 1,124,570	\$ 3,242,331

Nonmajor Governmental Funds	Total Governmental Funds
\$ 772,012	\$ 2,281,243
496,409	6,004,084
133	11,955
-	319,725
231,109	484,984
-	3,232,000
-	960,484
-	7,250
-	52,285
\$ 1,499,663	\$ 13,354,010

\$ 65,473	\$ 136,846
11,574	89,316
496,409	8,363,201
6,300	319,725
63,034	63,034
642,790	8,972,122

-	52,285
-	1,551,521
83,162	123,551
715	715
-	1,880,820
772,996	772,996
856,873	4,381,888
\$ 1,499,663	\$ 13,354,010

Continued...

COUNTY OF CHEBOYGAN

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2004

Reconciliation to the statement of net assets

Fund balances - total governmental funds \$ 4,381,888

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	11,003,962
Subtract: accumulated depreciation	(3,559,118)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus not included in fund balance.

Add: deferred revenue on loans	960,484
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: loans payable at December 31, 2004	(451,189)
Subtract: compensated absences	(252,303)
Subtract: accrued interest on long-term liabilities	(5,445)

Net assets of governmental activities	<u>\$ 12,078,279</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	General	State Revenue Sharing Reserve	Housing Commission	Inverness Township Sewer Debt Service
Revenues				
Taxes	\$ 5,461,185	\$ 1,835,892	\$ -	\$ -
Federal	312,934	-	246,145	-
State	879,728	-	-	-
Contributions and donations	-	-	-	-
Charges for services	1,428,316	-	-	-
Licenses	10,070	-	-	-
Fines	52,842	-	-	-
Permits	50,860	-	-	-
Reimbursements and refunds	224,979	-	-	-
Interest	38,745	-	745	-
Other	222,726	-	28,906	-
Total revenues	8,682,385	1,835,892	275,796	-
Expenditures				
Legislative	134,276	-	-	-
Judicial	1,503,682	-	-	-
General government	2,870,111	-	-	-
Public safety	2,850,284	-	-	-
Health and welfare	686,043	-	256,480	-
Recreation and culture	50,000	-	-	-
Other	200,478	-	-	-
Debt service				
Principal	-	-	-	33,958
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	8,294,874	-	256,480	33,958
Revenues over (under) expenditures	387,511	1,835,892	19,316	(33,958)
Other financial sources (uses)				
Loan proceeds	-	-	-	-
Local contribution	-	-	-	44,289
Transfers in	595,904	-	-	-
Transfers out	(640,149)	(284,371)	-	-
Total other financing sources (uses)	(44,245)	(284,371)	-	44,289
Net change in fund balances	343,266	1,551,521	19,316	10,331
Fund balances, beginning of year, as restated	1,487,504	-	113,077	-
Fund balances, end of year	\$ 1,830,770	\$ 1,551,521	\$ 132,393	\$ 10,331

Nonmajor Governmental Funds	Total Governmental Funds
\$ 478,557	\$ 7,775,634
456,176	1,015,255
843,086	1,722,814
8,675	8,675
722,297	2,150,613
-	10,070
121,289	174,131
-	50,860
-	224,979
2,461	41,951
461,025	712,657
3,093,566	13,887,639
-	134,276
387,332	1,891,014
474,980	3,345,091
238,343	3,088,627
2,064,973	3,007,496
230,552	280,552
-	200,478
110,000	143,958
22,376	22,376
186,779	186,779
3,715,335	12,300,647
(621,769)	1,586,992
160,204	160,204
-	44,289
710,894	1,306,798
(20,239)	(944,759)
850,859	566,532
229,090	2,153,524
627,783	2,228,364
\$ 856,873	\$ 4,381,888

Continued...

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Reconciliation to the statement of activities

Net change in fund balances - total governmental funds \$ 2,153,524

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay capitalized during current year	220,544
Subtract: depreciation expense	(353,784)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: current year housing loans	960,484
Subtract: prior year housing loans	(797,835)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	161,549
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	7,940
Subtract: current year accrued interest on bonds	(5,445)
Add: decrease in the accrual of compensated absences	99,476

Change in net assets of governmental activities	\$ 2,446,453
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Concluded

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 5,468,383	\$ 5,468,383	\$ 5,461,185	\$ (7,198)
Federal	145,525	364,599	312,934	(51,665)
State	1,156,363	1,170,576	879,728	(290,848)
Charges for services	1,405,770	1,406,776	1,428,316	21,540
Licenses	5,950	5,950	10,070	4,120
Fines	47,500	47,500	52,842	5,342
Permits	55,000	55,950	50,860	(5,090)
Reimbursements and refunds	139,211	140,767	224,979	84,212
Interest	29,500	29,500	38,745	9,245
Other	26,365	38,549	222,726	184,177
Total revenues	8,479,567	8,728,550	8,682,385	(46,165)
Expenditures				
Legislative	141,590	141,590	134,276	7,314
Judicial	1,488,021	1,546,344	1,503,682	42,662
General government	2,895,879	2,915,647	2,870,111	45,536
Public safety	2,837,091	2,922,529	2,850,284	72,245
Health and welfare	582,825	790,748	686,043	104,705
Recreation and culture	57,100	57,100	50,000	7,100
Other	482,372	219,357	200,478	18,879
Total expenditures	8,484,878	8,593,315	8,294,874	298,441
Revenues over (under) expenditures	(5,311)	135,235	387,511	252,276
Other financing sources (uses)				
Transfers in	658,856	658,895	595,904	(62,991)
Transfers out	(637,545)	(778,130)	(640,149)	137,981
Total other financing sources (uses)	21,311	(119,235)	(44,245)	74,990
Net change in fund balance	16,000	16,000	343,266	327,266
Fund balance, beginning of year	1,487,504	1,487,504	1,487,504	-
Fund balance, end of year	\$ 1,503,504	\$ 1,503,504	\$ 1,830,770	\$ 327,266

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - STATE SHARED REVENUE RESERVE

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ -	\$ -	\$ 1,835,892	\$ 1,835,892
Total revenues	-	-	1,835,892	1,835,892
Other financing sources (uses)				
Transfers out	-	(400,000)	(284,371)	115,629
Transfers in	-	400,000	-	(400,000)
Total other financing sources (uses)	-	-	(284,371)	(284,371)
Net change in fund balance	-	-	1,551,521	1,551,521
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 1,551,521	\$ 1,551,521

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - HOUSING COMMISSION

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Federal	\$ 261,111	\$ 261,111	\$ 246,145	\$ (14,966)
Interest	1,000	1,000	745	(255)
Other	90,958	90,958	28,906	(62,052)
Total revenues	353,069	353,069	275,796	(77,273)
Expenditures				
Health and welfare	440,510	440,510	256,480	184,030
Revenues over (under) expenditures	(87,441)	(87,441)	19,316	106,757
Other financing sources (uses)				
Transfers in	140,958	140,958	-	(140,958)
Net change in fund balance	53,517	53,517	19,316	(34,201)
Fund balance, beginning of year	113,077	113,077	113,077	-
Fund balance, end of year	\$ 166,594	\$ 166,594	\$ 132,393	\$ (34,201)

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2004

	Marina	Delinquent Tax Revolving	Non-Major Enterprise Funds	Totals
ASSETS				
Current assets				
Cash and cash equivalents	\$ 41,209	\$ 4,520,665	\$ 410,078	\$ 4,971,952
Accounts receivable	-	36,349	55,888	92,237
Interest receivable	-	162,784	-	162,784
Taxes receivable	-	986,949	-	986,949
Prepaid items and inventory	20,735	-	-	20,735
Total current assets	61,944	5,706,747	465,966	6,234,657
Restricted cash	329,211	-	-	329,211
Property and equipment, net of accumulated depreciation	1,258,392	-	397,839	1,656,231
Total assets	1,649,547	5,706,747	863,805	8,220,099
LIABILITIES				
Current liabilities				
Accounts payable	-	-	39,353	39,353
Accrued expenses	679	-	-	679
Total current liabilities	679	-	39,353	40,032
Long-term liabilities				
Advances from other funds	-	-	52,285	52,285
Advances from other governmental units	-	-	30,000	30,000
Total long-term liabilities	-	-	82,285	82,285
Total liabilities	679	-	121,638	122,317
NET ASSETS				
Invested in capital assets	1,258,392	-	397,839	1,656,231
Restricted				
Capital improvements	329,211	-	-	329,211
Tax administration	-	6,475	-	6,475
Unrestricted	61,265	5,700,272	344,328	6,105,865
Total net assets	\$ 1,648,868	\$ 5,706,747	\$ 742,167	\$ 8,097,782

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Marina	Delinquent Tax Revolving	Non-Major Enterprise Funds	Totals
Operating revenues				
Charges for services	\$ 473,352	\$ 120,507	\$ 357,255	\$ 951,114
Interest received on delinquent taxes	-	229,911	-	229,911
State revenue - operations	-	-	301,462	301,462
Federal revenue - operations	-	-	53,875	53,875
Total operating revenues	473,352	350,418	712,592	1,536,362
Operating expenses				
Recreation	520,014	-	-	520,014
Other	-	14,513	694,157	708,670
Total operating expenses	520,014	14,513	694,157	1,228,684
Operating income (loss)	(46,662)	335,905	18,435	307,678
Non-operating revenues (expenses)				
Interest expense	-	(990)	-	(990)
Interest income	3,537	97,315	-	100,852
Total non-operating revenues	3,537	96,325	-	99,862
Income (loss) before transfers	(43,125)	432,230	18,435	407,540
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(2,039)	(330,000)	(30,000)	(362,039)
Total other financing uses	(2,039)	(330,000)	(30,000)	(362,039)
Net income (loss)	(45,164)	102,230	(11,565)	45,501
Net assets, beginning of year, as restated	1,694,032	5,604,517	668,572	7,967,121
Prior period adjustment	-	-	85,160	85,160
Net assets, beginning of year, as restated	1,694,032	5,604,517	753,732	8,052,281
Net assets, end of year	\$ 1,648,868	\$ 5,706,747	\$ 742,167	\$ 8,097,782

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Marina	Delinquent Tax Revolving	Non-Major Enterprise Funds	Totals
Cash flows from operating activities				
Cash collected from customers	\$ 473,352	\$ 631,596	\$ 357,255	\$ 1,462,203
Cash collected from other governmental units	-	-	324,075	324,075
Cash paid for employee wages and benefits	(67,106)	-	(16,721)	(83,827)
Cash paid for other operating and administrative expenses	(396,579)	(14,513)	(560,088)	(971,180)
Net cash provided by (used in) operating activities	9,667	617,083	104,521	731,271
Cash flows provided by (used in) capital and related financing activities				
Purchase of property and equipment	(560)	-	-	(560)
Cash flows from non-capital and related financing activities				
Interest payments	-	(990)	-	(990)
Advance from other funds	-	-	17,285	17,285
Transfer out	(2,039)	(330,000)	(30,000)	(362,039)
Net cash provided by (used in) non-capital and related financing activities	(2,039)	(330,990)	(12,715)	(345,744)
Cash flows provided by (used in) investing activities				
Interest earnings	3,537	97,315	-	100,852
Net increase (decrease) in cash and cash equivalents	10,605	383,408	91,806	486,379
Cash and cash equivalents, beginning of year	359,815	4,137,257	318,272	4,815,344
Cash and cash equivalents, end of year	\$ 370,420	\$ 4,520,665	\$ 410,078	\$ 5,301,723

Continued...

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Marina</u>	<u>Delinquent Tax Revolving</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Cash flows from operating activities				
Operating income (loss)	\$ (46,662)	\$ 335,905	\$ 18,435	\$ 307,678
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	66,444		116,196	182,640
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	-	6,178	(31,262)	(25,084)
Interest receivable		103,858	-	103,858
Taxes receivable		171,142	-	171,142
Prepaid items and inventory	(10,502)	-	-	(10,502)
Accounts payable	-	-	2,642	2,642
Accrued expenses	387	-	-	387
Due to other funds	-	-	(1,490)	(1,490)
Due to other governmental units	-	-	-	-
Net cash provided by (used in) operating activities	<u><u>\$ 9,667</u></u>	<u><u>\$ 617,083</u></u>	<u><u>\$ 104,521</u></u>	<u><u>\$ 731,271</u></u>

Concluded

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

ASSETS	
Cash and cash equivalents	\$ 702,241
LIABILITIES	
Due to other governmental units	\$ 176,302
Undistributed receipts	197,967
Deposits payable	1,589
Court items payable	51,480
Other liabilities	274,903
Total liabilities	\$ 702,241

The accompanying notes are an integral part of these basic financial statements.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the County (the primary government) and its component unit. The component unit discussed below is included in the County's reporting entity because the County is financially accountable for it.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements includes the financial data of the County's component unit, the Cheboygan County Road Commission (the "Road Commission"). This component unit is presented in a separate column to emphasize that it is legally separate from the County.

Commissioners of the Road Commission are elected by the voters of the County. The Road Commission is included in the report of the County because the County has the ability to significantly influence the Road Commission. Complete financial statements of the component unit can be obtained directly from their administrative office at Cheboygan County Road Commission, 5302 South Straits Highway, Indian River, Michigan, 49747.

Multi-County Agencies

The County participates jointly in the operation of the District Health Department Office #4 with Alpena, Presque Isle and Montmorency counties. All financial operations of the District Health Department Office #4 are recorded in the financial statements of Alpena County. The funding formula requires the County to provide approximately 30% of the budget appropriation requirement, which amounted to \$222,345 for the year ended December 31, 2004. This expenditure was made from the General Fund.

The County participates in the North Country Community Mental Health Authority (the "Authority") with Charlevoix, Otsego, Emmet, Kalkaska and Antrim counties. Financial statements for the Authority can be obtained from the Authority. The County contributed \$111,995 for the year ended December 31, 2004. This expenditure was made from the General Fund.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Regional Joint Operations

The County contributes annually to the Cheboygan Airport Authority. The Cheboygan Airport Authority operates with a separate treasurer. The County's contribution for the year ended December 31, 2004 was \$50,000. Financial statements for the Cheboygan Airport Authority may be obtained through the Cheboygan County Airport, 1520 Levering Road, Cheboygan, Michigan, 49721.

The County, together with Charlevoix and Emmet counties, has jointly established the C.C.E. Central Dispatch Authority (the "C.C.E."), which is a Michigan municipal body formed by, and on behalf of participating municipalities located within the counties of Charlevoix, Cheboygan and Emmet, through the auspices of the Inter-governmental Contracts Between Municipalities Act, Urban Cooperation Act, and Emergency Telephone Service Enabling Act. The County is required to contribute annually to the operations of the C.C.E. The funding formula, which is reviewed every five years, calls for each County to provide 20% of the required funding (total 60% for the three counties), plus their prorata share of the remainder, based on telephone lines. The County's share for the year ended December 31, 2004 was \$359,734. The purpose of the C.C.E. is to centralize the dispatch of emergency service responders in the three county areas. Financial statements for the C.C.E. may be obtained through C.C.E. Central Dispatch Authority, P.O. Box 866, Petoskey, Michigan, 49770.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *State Revenue Sharing Reserve Fund* accounts for the state mandated property tax reserve.

The *Housing Commission Fund* accounts for the operations of County-operated housing.

The *Inverness Township Sewer Debt Service Fund* accounts for the activity related to the Rural Development Loan.

The County reports the following major enterprise funds:

The *Marina Fund* accounts for the operations of the County-owned marina.

The *Delinquent Tax Revolving Fund* accounts for the activities involved in collecting delinquent property taxes.

Additionally, the County reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Enterprise Funds. These funds account for the County's business-type operations that provide services to residents of the County for a fee.

Agency Funds. These funds account for assets held for other governments and employees in an agency capacity.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if they are collected within 60 days of the end of the current fiscal year, or within one year for reimbursement type grants. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The County maintains an investment pool for all County funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and Cash Equivalents." The agency funds cash resources are invested separately as required by law.

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

2. Receivables and Payables

All receivables are reported at their gross value.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

3. Property Taxes

Public Act 357 of 2004 provides a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund known as the Revenue Sharing Reserve Fund.

Through 2004, the County property tax was levied each December 1 on the assessed valuation of property located in the County as of the preceding December 31. On December 1, the assessment was an enforceable lien on property and is payable by the last day of the following February. Assessed values are established annually by the County and are equalized by the State of Michigan at an estimated 50% of current market value.

By resolution of the Board of Commissioners, the County Treasurer purchases at face value, the real property taxes receivable from other local units which were returned delinquent each March 1. Subsequent collections of these receivables were used to liquidate the amounts due the General Fund and various other funds for current operations.

4. Prepaid Items and Inventories

Prepaid items consist of certain payments to vendors which reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

All inventories are valued at cost using the first-in/first-out (FIFO) method.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

5. *Restricted Assets*

Certain resources are set aside for expansion at the County-owned marina and are classified as restricted assets on the Statement of Net Assets because their use is limited to fund capital improvements at the marina.

6. *Capital Assets*

Primary Government

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as: assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	15-40
Land improvements	10-40
Machinery and equipment	5-10
Transportation equipment	4-7
Docks	5-40

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Component Unit

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with estimated useful lives in excess of two years. No minimum cost is used to record equipment capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-year digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset. The estimated useful lives are as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5-8
Roads	8-30
Bridges	25-50

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite of the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads has been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

7. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$8,363,201.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Deferred revenues relate primarily to the Inverness Township Sewer Expansion Project lease receivable, which will be collected over the life of the loan (see Note 3B) and the 2005 property taxes assessed on December 31, 2003 (lien date), which are levied on December 1, 2004, and are to be collected principally in February 2005. These taxes have been recorded as a receivable and as deferred revenue at December 31, 2004 since they are not available to finance expenditures until 2005.

8. *Compensated Absences*

It is the County's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

9. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

10. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

In October of each year, the Finance Director and Administrator prepare a budget based on appropriation requests from each department within the County. In November of each year, the proposed budget is presented to the County Board of Commissioners for review. The Board holds public hearings and a final budget must be prepared and adopted no later than December 31. The County Administrator may make transfers of appropriations up to \$5,000. Transfers of appropriations greater than \$5,000 require the approval of the Board. The legal level of budgetary control is the function level.

B. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the County for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Following is a reconciliation of deposit and investment balances as of December 31, 2004:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 7,253,195	\$ 960,678	\$ 8,213,873
Restricted assets	<u>336,461</u>	<u>-</u>	<u>336,461</u>
Total Statement of Net Assets	<u>\$ 7,589,656</u>	<u>\$ 960,678</u>	
Statement of Fiduciary Net Assets			
Cash and cash equivalents			<u>702,241</u>
Total			<u>\$ 9,252,575</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

At year end, the carrying amount of deposits was \$9,181,291. The bank balance was \$10,724,157. Of the bank balance, \$888,847 was covered by Federal Depository Insurance Corporation (FDIC). The remaining balance of \$9,835,310 was uninsured and uncollateralized.

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution with which it deposits County funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Road Commission, at December 31, 2004, held \$71,284 in a financial institution investment pool that is not evidenced by securities that exist in physical or book entry form. The investment pool account is registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pool is the same as the value of the investment pool shares. The investment pool has the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pool is included with cash and cash equivalents in the accompanying financial statements and is recorded at cost which approximates fair value.

B. Receivables

The composition of receivables is as follows as of December 31, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 11,955	\$ 36,349	\$ 368
Interest receivable	-	162,784	-
Taxes receivable	6,004,084	986,949	-
Due from other governmental units	484,984	55,888	1,032,322
Lease receivable, due in 1 year	40,000	-	-
Lease receivable, due in more than 1 year	3,192,000	-	-
Loans receivable, due in 1 year	10,000	-	-
Loans receivable, due in more than 1 year	<u>950,484</u>	<u>-</u>	<u>-</u>
Receivables	<u>\$ 10,693,507</u>	<u>\$ 1,241,970</u>	<u>\$ 1,032,690</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Lease Receivable

On December 10, 2002 the County borrowed \$3,419,000 from the United States Department of Housing and Urban Development (HUD) under the provisions of the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) for the development of a sewer extension in Inverness Township.

On May 1, 2002, Inverness Township entered into a contract with the County. This contract provides among other things that the County will finance a portion of this project in anticipation of sufficient payments to be made by the Township to pay the principal and interest on the loan. The outstanding lease receivable recorded in the accompanying basic financial statements is offset by deferred revenue because it is not available for use by the County. The loan consists of a series of notes ranging in amounts of \$40,000 to \$100,000, with maturity dates from September 1, 2005 to September 1, 2024 with interest charged at 4.625%.

The Township has pledged its full faith and credit for the repayment of the loan. Neither the full faith and credit nor the taxing power of the County is pledged for the payment of the notes; therefore, the debt has not been recorded in the accompanying basic financial statements.

C. Capital Assets

Capital assets activity was as follows for the year ended December 31, 2004:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 3,218,280	\$ -	\$ -	\$ 3,218,280
Capital assets being depreciated				
Buildings and improvements	6,551,364	132,920	-	6,684,284
Land improvements	35,067	-	-	35,067
Machinery and equipment	594,642	48,060	-	642,702
Transportation equipment	<u>384,065</u>	<u>39,564</u>	<u>-</u>	<u>423,629</u>
Total capital assets being depreciated	<u>7,565,138</u>	<u>220,544</u>	<u>-</u>	<u>7,785,682</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings and improvements	\$(2,775,694)	\$ (178,004)	\$ -	\$(2,953,698)
Land improvements	(3,312)	(2,338)	-	(5,650)
Machinery and equipment	(251,035)	(86,098)	-	(337,133)
Transportation equipment	<u>(175,293)</u>	<u>(87,344)</u>	<u>-</u>	<u>(262,637)</u>
Total accumulated depreciation	<u>(3,205,334)</u>	<u>(353,784)</u>	<u>-</u>	<u>(3,559,118)</u>
Total capital assets being depreciated, net	<u>4,359,804</u>	<u>(133,240)</u>	<u>-</u>	<u>4,226,564</u>
Governmental activities capital assets, net	<u>\$ 7,578,084</u>	<u>\$ (133,240)</u>	<u>\$ -</u>	<u>\$ 7,444,844</u>
Business-type activities				
Capital assets being depreciated				
Buildings and improvements	\$ 539,312	\$ -	\$ -	\$ 539,312
Land improvements	912,704	-	-	912,704
Machinery and equipment	86,001	560	(1,061)	85,500
Transportation equipment	693,197	-	-	693,197
Docks	<u>477,110</u>	<u>-</u>	<u>-</u>	<u>477,110</u>
Total capital assets being depreciated	<u>2,708,324</u>	<u>560</u>	<u>(1,061)</u>	<u>2,707,823</u>
Less accumulated depreciation for				
Buildings and improvements	(211,272)	(17,976)	-	(229,248)
Land improvements	(237,756)	(29,502)	-	(267,258)
Machinery and equipment	(44,419)	(11,265)	1,061	(54,623)
Transportation equipment	(196,942)	(111,639)	-	(308,581)
Docks	<u>(179,624)</u>	<u>(12,258)</u>	<u>-</u>	<u>(191,882)</u>
Total accumulated depreciation	<u>(870,013)</u>	<u>(182,640)</u>	<u>1,061</u>	<u>(1,051,592)</u>
Business-type activities capital assets, net	<u>\$ 1,838,311</u>	<u>\$ (182,080)</u>	<u>\$ -</u>	<u>\$ 1,656,231</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

Judicial	\$ 16,419
General government	138,794
Public safety	143,346
Health and welfare	40,100
Recreation and culture	<u>15,125</u>

Total depreciation expense – governmental activities **\$ 353,784**

Business-type activities

Marina	\$ 66,444
Straits Area Regional Ride	<u>116,196</u>

Total depreciation expense – business-type activities **\$ 182,640**

Component Unit – Road Commission

Capital assets activity was as follows for the Road Commission for the year ended December 31, 2004:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 141,355	\$ 117,400	\$ -	\$ 258,755
Land improvements	6,353,621	547,970	-	6,901,591
Right of ways	83,182	4,126	-	87,308
Construction-in-process	<u>-</u>	<u>18,837</u>	<u>-</u>	<u>18,837</u>
Total capital assets, not being depreciated	<u>6,578,158</u>	<u>688,333</u>	<u>-</u>	<u>7,266,491</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Buildings and improvements	\$ 863,717	\$ 2,515,900	\$ (127,811)	\$ 3,251,806
Road equipment	6,232,339	221,415	(39,019)	6,414,735
Shop equipment	98,397	135,552	(2,410)	231,539
Office equipment	76,341	5,533	(2,019)	79,855
Engineering equipment	58,972	1,254	-	60,226
Yard and storage	134,369	100,229	(40,374)	194,224
Infrastructure				
Roads	9,237,055	1,409,065	-	10,646,120
Bridges	4,459,071	282,996	(20,630)	4,721,437
Depletable assets				
Gravel pits	<u>27,085</u>	<u>-</u>	<u>-</u>	<u>27,085</u>
Total capital assets, being depreciated	<u>21,187,346</u>	<u>4,671,944</u>	<u>(232,263)</u>	<u>25,627,027</u>
Less accumulated depreciation for				
Buildings and improvements	(738,629)	(50,075)	123,349	(665,355)
Road equipment	(4,490,798)	(657,976)	39,019	(5,109,755)
Shop equipment	(78,532)	(4,852)	2,401	(80,983)
Office equipment	(45,014)	(9,346)	1,989	(52,371)
Engineering equipment	(50,250)	(5,675)	-	(55,925)
Yard and storage	(93,631)	(6,945)	40,374	(60,202)
Infrastructure				
Roads	(3,403,358)	(760,483)	20,630	(4,145,211)
Bridges	(1,456,309)	(97,170)	-	(1,553,479)
Depletable assets	<u>(15,332)</u>	<u>-</u>	<u>-</u>	<u>(15,332)</u>
Total accumulated depreciation	<u>(10,371,853)</u>	<u>(1,592,522)</u>	<u>227,762</u>	<u>(11,736,614)</u>
Total capital assets, being depreciated, net	<u>10,815,493</u>	<u>3,079,422</u>	<u>(4,501)</u>	<u>13,890,414</u>
Capital assets, net	<u>\$17,393,651</u>	<u>\$ 3,767,755</u>	<u>\$ (4,501)</u>	<u>\$21,156,905</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

D. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows as of December 31, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 142,291	\$ 39,353	\$ 129,593
Accrued expenses	89,316	679	192,040
Due to other governmental units	<u>63,034</u>	<u>-</u>	<u>1,961</u>
Total payables and accrued expenses	<u>\$ 294,641</u>	<u>\$ 40,032</u>	<u>\$ 323,594</u>

The Road Commission has advances of \$488,456 from the State of Michigan for working capital and equipment purchases under a road maintenance contract with the Michigan Department of Transportation. Advances are adjusted annually by the state and must be repaid if contract is cancelled.

E. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances are as follows at December 31, 2004:

<u>Due From Other Funds</u>	<u>Due To Other Funds</u>			<u>Total</u>
	<u>State Revenue Sharing Reserve</u>	<u>Housing Commission</u>	<u>Nonmajor Governmental Fund</u>	
General Fund	<u>\$ 284,371</u>	<u>\$ 29,054</u>	<u>\$ 6,300</u>	<u>\$ 319,725</u>

The General Fund advanced an additional \$17,285 to the Straits Area Regional Ride-Enterprise Fund during the fiscal year ended December 31, 2004 for operational purposes. The total outstanding advance of \$52,285 has no specific repayment terms. A reservation of fund balance is maintained in the General Fund for this advance as shown on the governmental funds balance sheet.

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Interfund transfers consisted of the following for the year ended December 31, 2004:

<u>Transfers out</u>	<u>Transfer in</u>		<u>Total</u>
	<u>General Funds</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 640,149	\$ 640,149
Delinquent Tax Revolving Fund	300,000	30,000	330,000
State Revenue Sharing Reserve	284,371	-	284,371
Marina	2,039	-	2,039
Nonmajor Fund – Governmental	9,494	10,745	20,239
Nonmajor Fund – Enterprise	-	30,000	30,000
Total operating transfers	<u>\$ 595,904</u>	<u>\$ 710,894</u>	<u>\$ 1,306,798</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended December 31, 2004:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2004</u>	<u>Due Within 1 Year</u>
<u>Primary Government</u>					
Installment purchase contract with Citizens National Bank maturing in fiscal 2007 with annual payments ranging from \$110,000 to \$140,000 plus interest ranging from 4.65% to 4.90%.	\$ 510,000	\$ -	\$ (110,000)	\$ 400,000	\$120,000

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2004</u>	<u>Due Within 1 Year</u>
Capitalized lease contract with Central State Auto Leasing maturing in fiscal 2005 with annual payments ranging from \$35,273 to \$39,562 including interest at 5.75%.	\$ 73,206	\$ -	\$ (35,273)	\$ 37,933	\$ 37,933
Capitalized lease contracts with Central State Auto Leasing maturing in fiscal 2004 through 2007 with quarterly payments of \$3,252 including interest ranging from 5.75% to 9.00%.	21,110	-	(10,021)	11,089	4,752
Installment purchase contract with GMAC maturing in fiscal 2005 with monthly payments of \$548 including interest charged at 5.75%.	8,422	-	(6,255)	2,167	2,167
Liability for accrued compensated absences.	<u>351,779</u>	<u>-</u>	<u>(99,476)</u>	<u>252,303</u>	<u>6,924</u>
Total primary government long-term debt	<u>\$ 964,517</u>	<u>\$ -</u>	<u>\$ (261,025)</u>	<u>\$ 703,492</u>	<u>\$171,776</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>January 1,</u> <u>2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>December 31,</u> <u>2004</u>	<u>Due</u> <u>Within</u> <u>1 Year</u>
<u>Component unit</u>					
2004 MTF Bonds maturing serially through fiscal 2029 in annual payments ranging from \$55,000 to \$195,000 including interest ranging from 3.00% to 4.75%.	\$ -	\$3,060,000	\$ -	\$3,060,000	\$ 55,000
Liability for accrued compensated absences.	<u>294,882</u>	<u>32,728</u>	<u>-</u>	<u>327,610</u>	<u>-</u>
Total component unit long-term debt	<u>\$ 294,882</u>	<u>\$3,092,728</u>	<u>\$ -</u>	<u>\$3,387,610</u>	<u>\$ 55,000</u>

For the primary government, compensated absences are generally liquidated by the General Fund.

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows at December 31, 2004:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 164,852	\$ 19,230	\$ 55,000	\$ 157,916
2006	145,033	10,478	85,000	124,068
2007	141,304	3,449	85,000	121,518
2008	-	-	90,000	118,892
2009	-	-	90,000	116,192
2010-2014	-	-	485,000	532,912
2015-2019	-	-	575,000	429,814
2020-2024	-	-	710,000	292,084
2025-2029	<u>-</u>	<u>-</u>	<u>885,000</u>	<u>109,011</u>
	<u>\$ 451,189</u>	<u>\$ 33,157</u>	<u>\$3,060,000</u>	<u>\$ 2,002,407</u>

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Total interest expense for the County for the year was \$27,564. The component unit did not have any interest expense during the year ended December 31, 2004.

The County has guaranteed the component unit debt by pledging its full faith and credit.

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Primary Government

Plan Description

The County's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The County participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy

The County is required to contribute at an actuarially determined rate; the current rate ranges from 6.91% to 7.72% of annual covered payroll depending on the valuation division. Employees are currently required to contribute 3% to 3.5% depending on the valuation division. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the County, depending on the MERS contribution program adopted by the County.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2004, the County's annual pension cost of \$311,922 for MERS was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2000 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases on 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the latest actuarial valuation, was 30 years.

Six-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/99	\$ 187,183	100%	\$ -
12/31/00	198,957	100%	-
12/31/01	193,724	100%	-
12/31/02	234,612	100%	-
12/31/03	264,155	100%	-
12/31/04	311,922	100%	-

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Payroll Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Accrued Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/98	\$ 5,866,678	\$ 6,165,056	\$ 298,378	95%	\$ 1,896,889	16%
12/31/99	6,856,359	6,967,384	111,025	98%	2,775,625	4%
12/31/00	7,655,485	7,746,033	90,548	99%	3,018,266	3%
12/31/01	8,361,050	9,011,773	650,723	93%	3,253,615	20%
12/31/02	8,780,989	9,811,927	1,030,938	89%	3,545,329	29%
12/31/03	9,610,030	10,560,012	949,982	91%	3,551,184	27%

Component Unit

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at actuarially determined rates of 16.79% for general employees and 43.16% for salaried employees. The Plan requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$432,047 for MERS was equal to the Road Commission's required and actual contributions.

The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) projected salary increases depending on age and attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the latest valuation, was 30 years.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
12/31/00	\$ 274,341	100%	\$ -
12/31/01	257,346	100%	-
12/31/02	344,876	100%	-
12/31/03	450,361	100%	-
12/31/04	432,047	100%	-

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Payroll Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Accrued Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b-a)/c)
12/31/99	\$ 6,624,652	\$ 8,539,949	\$ 1,915,297	78%	\$ 1,456,398	132%
12/31/00	7,170,957	10,074,444	2,903,487	71%	1,772,919	164%
12/31/01	7,579,105	10,925,778	3,346,673	69%	1,829,913	183%
12/31/02	7,669,330	11,695,052	4,025,722	66%	1,934,672	208%
12/31/03	8,117,500	12,858,596	4,741,096	63%	1,866,822	254%

In addition to the pension benefits described above, the Road Commission provides post-employment healthcare to eligible employees who retire on or after attaining retirement age with at least ten years of service. Related expenditures are recognized on a pay-as-you-go basis. For the year ended December 31, 2004, these costs amounted to \$306,734 with 34 eligible participants.

B. Risk Management

Primary Government

The County participates as a member in the Michigan Municipal Risk Management Authority (the "Authority"). The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund. In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

The reinsurance agreements discussed above include provisions for minimum annual premiums. As of December 31, 2004, the Authority had met the minimum requirements.

The County is a “state pool member” for the self-insured retention portion of liabilities and as such pays deductibles of only \$250 per vehicle and \$150 per occurrence for property and crime coverage. The County’s annual MMRMA premium includes a fee to participate as a “state pool member” for self-insured retention.

The County has transferred the risk of loss for workers’ compensation and health insurance via the purchase of commercial insurance policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

Component Unit

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the “Pool”) established pursuant to the laws of the State of Michigan, which authorize contract between municipal corporations (inter-local agreements) to form self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self sustaining through member premiums and will purchase both specific and aggregate stop-loss to the limits determined necessary by the Pool board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for worker’s compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts retained by the fund.

COUNTY OF CHEBOYGAN

NOTES TO FINANCIAL STATEMENTS

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. The amount of settlement (claims) for the past three years has not exceeded insurance coverage.

C. Deficit Fund Balances

The Child Care Probate Special Revenue Fund reported a deficit fund balance of \$4,593 at December 31, 2004. The deficit will be eliminated during 2005 via an increase in the transfer received from the General Fund.

D. Restatement – Correction of an Error

During the year ended December 31, 2004, the beginning fund balance in the Social Services Welfare Fund and the beginning net assets in the governmental activities were restated to reflect a \$29,226 correction of a prior period error in recording an advance due to the State of Michigan.

During the year ended December 31, 2004, the beginning net assets balance in the Straits Regional Ride Fund and the beginning net assets in the business-type activities were restated to reflect a \$85,160 correction of a prior period error in recording a contribution of buses from the State of Michigan and revenue related to a grant.

SUPPLEMENTARY INFORMATION

COUNTY OF CHEBOYGAN

DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Expenditures				
Legislative				
Board of commissioners	\$ 141,590	\$ 141,590	\$ 134,276	\$ 7,314
Judicial				
Circuit court	333,652	358,902	356,986	1,916
District court	485,196	500,304	490,414	9,890
Probate court	609,530	626,405	600,037	26,368
Jury board	7,900	7,900	6,788	1,112
Victim's rights	51,743	52,833	49,457	3,376
Total judicial	1,488,021	1,546,344	1,503,682	42,662
General government				
Elections	45,800	48,100	26,317	21,783
Administrative office	167,368	169,468	162,655	6,813
Equalization	220,595	235,955	232,632	3,323
County clerk/Register of deeds	320,843	323,543	304,182	19,361
Prosecuting attorney	471,567	481,017	466,619	14,398
County treasurer	195,572	198,122	192,875	5,247
Finance	130,362	132,912	127,403	5,509
Building and grounds	627,412	604,386	697,496	(93,110)
Drain commissioner	2,625	2,625	2,385	240
County surveyor	750	750	750	-
Cooperative extension	88,158	89,008	82,028	6,980
Soil conservation	15,332	15,332	15,125	207
Planning commission	207,320	210,945	205,391	5,554
Mapping	6,000	6,050	5,521	529
General county	396,175	397,434	348,732	48,702
Total general government	2,895,879	2,915,647	2,870,111	45,536
Public safety				
Sheriff department	908,379	968,656	937,917	30,739
County jail	1,150,771	1,161,749	1,140,871	20,878
Marine safety	84,003	91,142	84,562	6,580
ORV safety	14,078	14,078	12,139	1,939
Snowmobile safety	29,933	29,932	26,883	3,049
Secondary road patrol	147,199	153,714	142,535	11,179
Central dispatch	359,734	359,734	359,734	-
Animal control	94,644	95,174	95,169	5
Cops for kids	28,350	28,350	21,263	7,087
Civil defense	20,000	20,000	29,211	(9,211)
Total public safety	2,837,091	2,922,529	2,850,284	72,245

Continued...

COUNTY OF CHEBOYGAN

DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Health and welfare				
Health department	\$ 217,499	\$ 222,945	\$ 222,345	\$ 600
Mental health	111,995	111,995	111,995	-
LEPC	1,000	35,797	2,589	33,208
Housing	81,780	83,200	82,292	908
Medical examiner	11,481	18,561	15,787	2,774
Ambulance	70,000	70,000	70,000	-
Domestic preparedness	-	154,624	98,229	56,395
Veterans services	89,070	93,626	82,806	10,820
Total health and welfare	582,825	790,748	686,043	104,705
Recreation and culture				
Airport	57,100	57,100	50,000	7,100
Other				
Insurance	475,050	212,035	158,156	53,879
NEMCOG	7,022	7,022	7,022	-
Contributions to other local units	-	-	35,000	(35,000)
Miscellaneous	300	300	300	-
Total other	482,372	219,357	200,478	18,879
Total expenditures	8,484,878	8,593,315	8,294,874	298,441
Other financing uses				
Transfers to other funds				
Jaws of Life	3,500	3,500	3,500	-
Friend of the Court	38,160	45,485	-	45,485
Law Library	13,225	13,225	11,000	2,225
Social Services Medical	34,700	34,700	25,473	9,227
Social Services Welfare	330,000	445,759	442,590	3,169
Child Care Probate	101,960	86,501	30,000	56,501
County Fair	26,000	33,460	33,460	-
Register of Deeds Automation	60,000	60,000	53,190	6,810
Termination Liability	30,000	30,000	30,000	-
Mapping	-	25,500	10,936	14,564
Total other financing uses	637,545	778,130	640,149	137,981
Total expenditures and other financing uses	\$ 9,122,423	\$ 9,371,445	\$ 8,935,023	\$ 436,422

Concluded

COUNTY OF CHEBOYGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	Special Revenue Funds	Inverness Township Sewer Capital Project	Total
ASSETS			
Cash and cash equivalents	\$ 771,297	\$ 715	\$ 772,012
Taxes receivable	496,409	-	496,409
Accounts receivable	133	-	133
Due from other governmental units	198,385	32,724	231,109
Total assets	\$ 1,466,224	\$ 33,439	\$ 1,499,663
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 32,749	\$ 32,724	\$ 65,473
Accrued expenses	11,574	-	11,574
Deferred revenue	496,409	-	496,409
Due to other funds	6,300	-	6,300
Due to other governmental units	63,034	-	63,034
Total liabilities	610,066	32,724	642,790
Fund balances			
Designated			
Capital projects	-	715	715
Subsequent year's expenditures	83,162	-	83,162
Unreserved and undesignated	772,996	-	772,996
Total fund balances	856,158	715	856,873
Total liabilities and fund balances	\$ 1,466,224	\$ 33,439	\$ 1,499,663

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds	Inverness Township Sewer Capital Project	Total
Revenues			
Taxes	\$ 478,557	\$ -	\$ 478,557
Federal	428,886	27,290	456,176
State	843,086	-	843,086
Contributions and donations	8,675	-	8,675
Charges for services	722,297	-	722,297
Fines and penalties	121,289	-	121,289
Interest	2,461	-	2,461
Other	461,025	-	461,025
Total revenues	3,066,276	27,290	3,093,566
Expenditures			
Judicial	387,332	-	387,332
General government	474,980	-	474,980
Public safety	238,343	-	238,343
Health and welfare	2,064,973	-	2,064,973
Recreation and culture	230,552	-	230,552
Debt service			
Principal	110,000	-	110,000
Interest	22,376	-	22,376
Capital outlay	-	186,779	186,779
Total expenditures	3,528,556	186,779	3,715,335
Revenues over (under) expenditures	(462,280)	(159,489)	(621,769)
Other financing sources (uses)			
Loan proceeds	-	160,204	160,204
Transfers in	710,894	-	710,894
Transfers out	(20,239)	-	(20,239)
Total other financing sources	690,655	160,204	850,859
Net changes in fund balances	228,375	715	229,090
Fund balances, beginning of year, as restated	627,783	-	627,783
Fund balances, end of year	\$ 856,158	\$ 715	\$ 856,873

COUNTY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004

	Family Counseling	Convention and Tourism	P.A. 302 Training	Education Emergency Assistance	Victim's Restitution
ASSETS					
Cash and cash equivalents	\$ 8,126	\$ -	\$ 8,698	\$ 14,084	\$ 5,315
Taxes receivable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Due from other governmental units	-	-	-	-	-
Total assets	\$ 8,126	\$ -	\$ 8,698	\$ 14,084	\$ 5,315
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governmental units	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund balances					
Designated for subsequent year's expenditures	4,000	-	600	-	5,000
Unreserved and undesignated	4,126	-	8,098	14,084	315
Total fund balances (deficit)	8,126	-	8,698	14,084	5,315
Total liabilities and fund balances	\$ 8,126	\$ -	\$ 8,698	\$ 14,084	\$ 5,315

Remonumentation Grant	Gypsy Moth	Jaws of Life	SANE	Friend of the Court	Mapping Project	Public Improvement
\$ 18,511	\$ 31,600	\$ 11,746	\$ 56	\$ 36,950	\$ 1	\$ 9,697
-	-	-	-	-	-	-
-	-	-	-	-	-	-
5,352	-	-	22,215	95,693	-	-
\$ 23,863	\$ 31,600	\$ 11,746	\$ 22,271	\$ 132,643	\$ 1	\$ 9,697
\$ -	\$ -	\$ -	\$ -	\$ 2,623	\$ -	\$ -
-	-	-	1,078	5,278	-	-
-	-	-	-	-	-	-
-	-	-	6,300	-	-	-
-	-	-	-	-	-	-
-	-	-	7,378	7,901	-	-
-	10,000	-	-	-	-	9,697
23,863	21,600	11,746	14,893	124,742	1	-
23,863	31,600	11,746	14,893	124,742	1	9,697
\$ 23,863	\$ 31,600	\$ 11,746	\$ 22,271	\$ 132,643	\$ 1	\$ 9,697

Continued...

COUNTY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004

	Kids ID Program	Disaster Contingency	Law Library	Seniors Millage	Seniors Busing
ASSETS					
Cash and cash equivalents	\$ 1,216	\$ 10,000	\$ 1,155	\$ 1,071	\$ -
Taxes receivable	-	-	-	496,409	-
Accounts receivable	-	-	-	-	-
Due from other governmental units	-	-	-	-	24,270
Total assets	\$ 1,216	\$ 10,000	\$ 1,155	\$ 497,480	\$ 24,270
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 24,270
Accrued expenses	-	-	-	-	-
Deferred revenue	-	-	-	496,409	-
Due to other funds	-	-	-	-	-
Due to other governmental units	-	-	-	-	-
Total liabilities	-	-	-	496,409	24,270
Fund balances					
Designated for subsequent year's expenditures	-	10,000	-	-	-
Unreserved and undesignated	1,216	-	1,155	1,071	-
Total fund balances (deficit)	1,216	10,000	1,155	1,071	-
Total liabilities and fund balances	\$ 1,216	\$ 10,000	\$ 1,155	\$ 497,480	\$ 24,270

Social Services Medical	Social Services Welfare	Child Care Probate	Cellular Phone Flow Through	CCE 911	SAYPA	CCE 911 Development
\$ 5,271	\$ 26,568	\$ 6,140	\$ -	\$ 7	\$ 5,186	\$ 14,172
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	25,104	-	-	6,891	18,860	-
\$ 5,271	\$ 51,672	\$ 6,140	\$ -	\$ 6,898	\$ 24,046	\$ 14,172
\$ -	\$ -	\$ 5,590	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	1,136	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	51,000	5,143	-	6,891	-	-
-	51,000	10,733	-	6,891	1,136	-
-	-	-	-	-	-	14,172
5,271	672	(4,593)	-	7	22,910	-
5,271	672	(4,593)	-	7	22,910	14,172
\$ 5,271	\$ 51,672	\$ 6,140	\$ -	\$ 6,898	\$ 24,046	\$ 14,172

Continued...

COUNTY OF CHEBOYGAN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2004

	Soldiers Relief	Veterans Trust	Court House Preservation	Probate Court 25%	F.I.A. Building
ASSETS					
Cash and cash equivalents	\$ -	\$ 36	\$ 172,236	\$ 15,911	\$ 75,156
Taxes receivable	-	-	-	-	-
Accounts receivable	-	-	42	91	-
Due from other governmental units	-	-	-	-	-
Total assets	\$ -	\$ 36	\$ 172,278	\$ 16,002	\$ 75,156
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued expenses	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governmental units	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund balances					
Designated for subsequent year's expenditures	-	-	-	10,000	3,693
Unreserved and undesignated	-	36	172,278	6,002	71,463
Total fund balances (deficit)	-	36	172,278	16,002	75,156
Total liabilities and fund balances	\$ -	\$ 36	\$ 172,278	\$ 16,002	\$ 75,156

County Fair	Building Department	Register of Deeds Automation	Veteran's Assistance	Termination Liability	Total
\$ 20,728	\$ 133,868	\$ 52,174	\$ 482	\$ 85,136	\$ 771,297
-	-	-	-	-	496,409
-	-	-	-	-	133
-	-	-	-	-	198,385
\$ 20,728	\$ 133,868	\$ 52,174	\$ 482	\$ 85,136	\$ 1,466,224
\$ -	\$ 223	\$ 43	\$ -	\$ -	\$ 32,749
-	4,082	-	-	-	11,574
-	-	-	-	-	496,409
-	-	-	-	-	6,300
-	-	-	-	-	63,034
-	4,305	43	-	-	610,066
-	-	16,000	-	-	83,162
20,728	129,563	36,131	482	85,136	772,996
20,728	129,563	52,131	482	85,136	856,158
\$ 20,728	\$ 133,868	\$ 52,174	\$ 482	\$ 85,136	\$ 1,466,224

Concluded

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Family Counseling	Convention and Tourism	P.A. 302 Training	Education Emergency Assistance	Victim's Restitution
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal	-	-	-	-	-
State	-	141,145	4,288	-	-
Contributions and donations	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and penalties	-	-	-	3,465	-
Interest	-	-	-	-	-
Other	2,785	-	-	-	-
Total revenues	2,785	141,145	4,288	3,465	-
Expenditures					
Judicial	3,187	-	-	-	-
General government	-	-	-	-	-
Public safety	-	-	-	1,051	-
Health and welfare	-	141,145	3,942	-	-
Recreation and culture	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	3,187	141,145	3,942	1,051	-
Revenues over (under) expenditures	(402)	-	346	2,414	-
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources	-	-	-	-	-
Net changes in fund balances	(402)	-	346	2,414	-
Fund balances, beginning of year	8,528	-	8,352	11,670	5,315
Prior period adjustment	-	-	-	-	-
Fund balance (deficit), beginning of year, as restated	8,528	-	8,352	11,670	5,315
Fund balances (deficit), end of year	\$ 8,126	\$ -	\$ 8,698	\$ 14,084	\$ 5,315

Remonumentation Grant	Gypsy Moth	Jaws of Life	SANE	Friend of the Court	Mapping Project	Public Improvement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	25,106	286,331	-	-
42,530	-	-	-	15,565	-	-
-	-	-	-	-	6,644	-
-	-	-	-	73,431	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	34,442	-	1,000	-
42,530	-	-	59,548	375,327	7,644	-
-	-	-	-	368,772	-	-
42,530	-	-	-	-	78,579	-
-	-	-	60,408	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
42,530	-	-	60,408	368,772	78,579	-
-	-	-	(860)	6,555	(70,935)	-
-	-	3,500	-	-	70,936	-
-	-	-	-	-	-	-
-	-	3,500	-	-	70,936	-
-	-	3,500	(860)	6,555	1	-
23,863	31,600	8,246	15,753	118,187	-	9,697
-	-	-	-	-	-	-
23,863	31,600	8,246	15,753	118,187	-	9,697
\$ 23,863	\$ 31,600	\$ 11,746	\$ 14,893	\$ 124,742	\$ 1	\$ 9,697

Continued...

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Kids ID Program	Disaster Contingency	Law Library	Seniors Millage	Seniors Busing
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 478,557	\$ -
Federal	-	-	-	-	-
State	400	-	-	-	69,224
Contributions and donations	850	-	-	-	-
Charges for services	-	-	-	-	-
Fines and penalties	-	-	-	-	-
Interest	-	-	-	1,014	-
Other	-	-	3,501	1,046	-
Total revenues	1,250	-	3,501	480,617	69,224
Expenditures					
Judicial	-	-	14,021	-	-
General government	-	-	-	-	-
Public safety	2,279	-	-	-	-
Health and welfare	-	-	-	480,444	69,224
Recreation and culture	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	2,279	-	14,021	480,444	69,224
Revenues over (under) expenditures	(1,029)	-	(10,520)	173	-
Other financing sources (uses)					
Transfers in	-	-	11,000	-	-
Transfers out	-	-	-	-	-
Total other financing sources	-	-	11,000	-	-
Net changes in fund balances	(1,029)	-	480	173	-
Fund balances, beginning of year	2,245	10,000	675	898	-
Prior period adjustment	-	-	-	-	-
Fund balance (deficit), beginning of year, as restated	2,245	10,000	675	898	-
Fund balances (deficit), end of year	\$ 1,216	\$ 10,000	\$ 1,155	\$ 1,071	\$ -

Social Services Medical	Social Services Welfare	Child Care Probate	Cellular Phone Flow Through	CCE 911	SAYPA	CCE 911 Development
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	117,449	-
-	244,001	309,643	-	-	5,184	-
669	-	-	-	-	-	-
10,144	-	4,572	-	-	-	-
-	-	62,860	-	-	-	-
-	-	-	-	-	-	-
-	-	1,959	69,237	105,375	51,345	-
10,813	244,001	379,034	69,237	105,375	173,978	-
\$ -	-	\$ -	-	-	-	-
-	-	-	-	-	-	-
-	-	-	69,237	105,368	-	-
35,563	226,272	863,156	-	-	163,395	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
35,563	226,272	863,156	69,237	105,368	163,395	-
(24,750)	17,729	(484,122)	-	7	10,583	-
25,473	-	483,335	-	-	-	-
-	-	(10,745)	-	-	-	-
25,473	-	472,590	-	-	-	-
723	17,729	(11,532)	-	7	10,583	-
4,548	12,169	6,939	-	-	12,327	14,172
-	(29,226)	-	-	-	-	-
4,548	(17,057)	6,939	-	-	12,327	14,172
\$ 5,271	\$ 672	\$ (4,593)	\$ -	\$ 7	\$ 22,910	\$ 14,172

Continued...

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Soldiers Relief	Veterans Trust	Court House Preservation	Probate Court 25%	F.I.A. Building
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal	-	-	-	-	-
State	-	11,106	-	-	-
Contributions and donations	-	-	-	-	-
Charges for services	-	-	-	11,822	-
Fines and penalties	-	-	54,964	-	-
Interest	-	-	-	-	904
Other	-	-	-	-	189,867
Total revenues	-	11,106	54,964	11,822	190,771
Expenditures					
Judicial	-	-	1,352	-	-
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Health and welfare	1,935	11,349	-	10,263	58,000
Recreation and culture	-	-	-	-	-
Debt service					
Principal	-	-	-	-	110,000
Interest	-	-	-	-	21,898
Total expenditures	1,935	11,349	1,352	10,263	189,898
Revenues over (under) expenditures	(1,935)	(243)	53,612	1,559	873
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources	-	-	-	-	-
Net changes in fund balances	(1,935)	(243)	53,612	1,559	873
Fund balances, beginning of year	1,935	279	118,666	14,443	74,283
Prior period adjustment	-	-	-	-	-
Fund balance (deficit), beginning of year, as restated	1,935	279	118,666	14,443	74,283
Fund balances (deficit), end of year	\$ -	\$ 36	\$ 172,278	\$ 16,002	\$ 75,156

County Fair	Building Department	Register of Deeds Automation	Veterans Assistance	Termination Liability	Total
\$ -	\$ -	\$ -	\$ -	\$ -	478,557
-	-	-	-	-	428,886
-	-	-	-	-	843,086
-	-	-	512	-	8,675
213,150	409,178	-	-	-	722,297
-	-	-	-	-	121,289
-	-	450	-	93	2,461
-	468	-	-	-	461,025
213,150	409,646	450	512	93	3,066,276
-	-	-	-	-	387,332
-	299,005	35,473	-	19,393	474,980
-	-	-	-	-	238,343
-	-	-	285	-	2,064,973
230,552	-	-	-	-	230,552
-	-	-	-	-	110,000
-	478	-	-	-	22,376
230,552	299,483	35,473	285	19,393	3,528,556
(17,402)	110,163	(35,023)	227	(19,300)	(462,280)
33,460	-	53,190	-	30,000	710,894
-	(9,494)	-	-	-	(20,239)
33,460	(9,494)	53,190	-	30,000	690,655
16,058	100,669	18,167	227	10,700	228,375
4,670	28,894	33,964	255	74,436	657,009
-	-	-	-	-	(29,226)
4,670	28,894	33,964	255	74,436	627,783
\$ 20,728	\$ 129,563	\$ 52,131	\$ 482	\$ 85,136	\$ 856,158

Concluded

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2004

	<u>Tax Foreclosure</u>	<u>Straits Regional Ride</u>	<u>Jail Commissary</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 354,551	\$ 50,601	\$ 4,926	\$ 410,078
Due from other governmental units	-	55,888	-	55,888
Total current assets	354,551	106,489	4,926	465,966
Property and equipment, net of accumulated depreciation	-	397,839	-	397,839
Total assets	354,551	504,328	4,926	863,805
LIABILITIES				
Current liabilities				
Accounts payable	-	38,839	514	39,353
Long-term liabilities				
Advances from other funds	-	52,285	-	52,285
Advances from other governmental units	-	30,000	-	30,000
Total long-term liabilities	-	82,285	-	82,285
Total liabilities	-	121,124	514	121,638
NET ASSETS				
Invested in capital assets	-	397,839	-	397,839
Unrestricted (deficit)	354,551	(14,635)	4,412	344,328
Total net assets	\$ 354,551	\$ 383,204	\$ 4,412	\$ 742,167

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Total
Operating revenues				
Charges for services	\$ 166,443	\$ 182,347	\$ 8,465	\$ 357,255
State revenue - operations	-	301,462	-	301,462
Federal revenue - operations	-	53,875	-	53,875
Total operating revenues	166,443	537,684	8,465	712,592
Operating expenses				
Other	60,747	627,353	6,057	694,157
Operating income (loss)	105,696	(89,669)	2,408	18,435
Transfers out	(30,000)	-	-	(30,000)
Net income (loss)	75,696	(89,669)	2,408	(11,565)
Net assets, beginning of year	278,855	387,713	2,004	668,572
Prior period adjustment	-	85,160	-	85,160
Net assets, beginning of year, as restated	278,855	472,873	2,004	753,732
Net assets, end of year	\$ 354,551	\$ 383,204	\$ 4,412	\$ 742,167

COUNTY OF CHEBOYGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Total
Cash flows from operating activities				
Cash collected from customers	\$ 166,443	\$ 182,347	\$ 8,465	\$ 357,255
Cash collected from other governmental units	-	324,075	-	324,075
Cash paid for employee wages and benefits	(16,721)	-	-	(16,721)
Cash paid for other operating and administrative expenses	(45,516)	(509,029)	(5,543)	(560,088)
Net cash provided by (used in) operating activities	104,206	(2,607)	2,922	104,521
Cash flows from non-capital and related financing activities				
Advances from other funds	-	17,285	-	17,285
Transfer out	(30,000)	-	-	(30,000)
Net cash provided by (used in) non-capital and related financing activities	(30,000)	17,285	-	(12,715)
Net increase (decrease) in cash and cash equivalents	74,206	14,678	2,922	91,806
Cash and cash equivalents, beginning of year	280,345	35,923	2,004	318,272
Cash and cash equivalents, end of year	\$ 354,551	\$ 50,601	\$ 4,926	\$ 410,078

Continued...

COUNTY OF CHEBOYGAN

STATEMENT OF CASH FLOWS ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Tax Foreclosure</u>	<u>Straits Regional Ride</u>	<u>Jail Commissary</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Cash flows from operating activities				
Operating income (loss)	\$ 105,696	\$ (89,669)	\$ 2,408	\$ 18,435
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	116,196	-	116,196
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	-	(31,262)	-	(31,262)
Accounts payable	-	2,128	514	2,642
Due to other funds	(1,490)	-	-	(1,490)
Net cash provided by (used in) operating activities	<u><u>\$ 104,206</u></u>	<u><u>\$ (2,607)</u></u>	<u><u>\$ 2,922</u></u>	<u><u>\$ 104,521</u></u>

Concluded

COUNTY OF CHEBOYGAN
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

	Trust and Agency Fund	Friend of the Court Trust Fund	Library Penal Fines	District Court Trust Bond	Inmate Trust
ASSETS					
Cash and cash equivalents	\$ 416,910	\$ 500	\$ 96,793	\$ 19,630	\$ 2,152
LIABILITIES					
Due to other governmental units	\$ 79,509	\$ -	\$ 96,793	\$ -	\$ -
Undistributed receipts	29,559	-	-	-	2,152
Deposits payable	1,589	-	-	-	-
Court items payable	31,850	-	-	19,630	-
Other liabilities	274,403	500	-	-	-
Total liabilities	\$ 416,910	\$ 500	\$ 96,793	\$ 19,630	\$ 2,152

County Road Commission Bond		Total	
\$	166,256	\$	702,241
\$	-	\$	176,302
	166,256		197,967
	-		1,589
	-		51,480
	-		274,903
\$	166,256	\$	702,241

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
TRUST AND AGENCY FUND				
ASSETS				
Cash and investments- cash equivalents	<u>\$ 408,404</u>	<u>\$ 19,528,249</u>	<u>\$ 19,519,743</u>	<u>\$ 416,910</u>
LIABILITIES				
Due to other governmental units	\$ 138,136	\$ 8,543,724	\$ 8,602,351	\$ 79,509
Undistributed receipts	26,134	7,568,932	7,565,507	29,559
Deposits payable	34,967	50,703	84,081	1,589
Court item payables	56,150	111,489	135,789	31,850
Other liabilities	<u>153,017</u>	<u>21,103,319</u>	<u>20,981,933</u>	<u>274,403</u>
Total liabilities	<u>\$ 408,404</u>	<u>\$ 37,378,167</u>	<u>\$ 37,369,661</u>	<u>\$ 416,910</u>
FRIEND OF COURT TRUST FUND				
ASSETS				
Cash and cash equivalents	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>
LIABILITIES				
Other liabilities	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>
LIBRARY PENAL FINES				
ASSETS				
Cash and cash equivalents	<u>\$ 92,078</u>	<u>\$ 182,832</u>	<u>\$ 178,117</u>	<u>\$ 96,793</u>
LIABILITIES				
Due to other governmental units	<u>\$ 92,078</u>	<u>\$ 362,842</u>	<u>\$ 358,127</u>	<u>\$ 96,793</u>
DISTRICT COURT TRUST FUND				
ASSETS				
Cash and cash equivalents	<u>\$ 25,242</u>	<u>\$ 344,270</u>	<u>\$ 349,882</u>	<u>\$ 19,630</u>
LIABILITIES				
Court items payable	<u>\$ 25,242</u>	<u>\$ 690,688</u>	<u>\$ 696,300</u>	<u>\$ 19,630</u>
INMATE TRUST FUND				
ASSETS				
Cash and cash equivalents	<u>\$ 2,239</u>	<u>\$ 124,599</u>	<u>\$ 124,686</u>	<u>\$ 2,152</u>
LIABILITIES				
Undistributed receipts	<u>\$ 2,239</u>	<u>\$ 124,599</u>	<u>\$ 124,686</u>	<u>\$ 2,152</u>

Continued...

COUNTY OF CHEBOYGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
COUNTY ROAD COMMISSION BOND				
ASSETS				
Cash and cash equivalents	\$ -	\$ 3,148,480	\$ 2,982,224	\$ 166,256
LIABILITIES				
Undistributed receipts	\$ -	\$ 3,148,480	\$ 2,982,224	\$ 166,256
 TOTAL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 528,463	\$ 23,328,430	\$ 23,154,652	\$ 702,241
LIABILITIES				
Due to other governmental units	\$ 230,214	\$ 8,906,566	\$ 8,960,478	\$ 176,302
Undistributed receipts	28,373	10,842,011	10,672,417	197,967
Deposits payable	34,967	50,703	84,081	1,589
Court items payable	81,392	802,177	832,089	51,480
Other liabilities	153,517	21,103,319	20,981,933	274,903
Total liabilities	\$ 528,463	\$ 41,704,776	\$ 41,530,998	\$ 702,241

Concluded

SINGLE AUDIT SECTION

COUNTY OF CHEBOYGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through State Department of Commerce			
Community Development Block Grant	14.228	na	\$ 235,106
U.S. DEPARTMENT OF JUSTICE			
Passed through State Office of Criminal Justice			
Local law enforcement grant			
School Liaison Officer/ Cops For Kids	16.580	9XLBVX0344	55,708
Juvenile Accountability	16.540	JABGN-04-16001	9,394
Juvenile Accountability	16.540	JABGN-03-16001	704
Passed through Michigan Department of Community Health (MDCP)			
Local law enforcement block grant	16.592	83056-1-04-L	10,000
Substance Abuse - SANE	16.579	70868-5-03-B	17,430
Substance Abuse - SANE	16.579	70868-6-04-B	7,676
Total U.S. Department of Justice			100,912
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Family Independence Agency			
Promoting safe and stable families - SAYPA program	93.556	DEL 04-16001	3,999
Promoting safe and stable families - SAYPA program	93.556	DEL 04-16001	11,552
Title IV D - Prosecutor	93.563	CSPA 04-16002	41,595
Title IV D - Prosecutor	93.563	CSPA 05-16002	14,867
Title IV D - Friend of the Court	93.563	CSFOC 04-16001	172,042
Title IV D - Friend of the Court	93.563	CSFOC 05-16002	60,159
Title IV E - Prosecutor	93.670	PROFC 04-16001	5,357
Incentive Reimbursement	93.560	na	54,130
Total U.S. Department of Health and Human Services			363,701
U.S. DEPARTMENT OF AGRICULTURE			
Direct program			
Rural development loan proceeds - Inverness Township Sewer Project	10.760	na	160,204
Passed through Farmer's Home Administration			
Housing Preservation Grant	10.433	na	21,039
Total U.S. Department of Agriculture			181,243
U.S. DEPARTMENT OF EDUCATION			
Passed through Michigan Department of Community Health			
Drug free schools and local programs - SAYPA program	84.186a	2004-0087	73,570
Drug free schools and local programs - SAYPA program	84.186a	2005-1620	28,328
Total U.S. Department of Education			101,898

Continued...

COUNTY OF CHEBOYGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Michigan Department of Transportation			
Section 5311 operating assistance	20.507	2002 008 Z9	\$ 56,045
Section 5311 operating assistance	20.507	2002-0028 Z13	28,606
MDOT Highway Planning and Construction - Inverness Township Sewer Project	20.205	STD 9916(001)	<u>27,290</u>
Total U.S. Department of Transportation			<u>111,941</u>
U.S. DEPARTMENT OF TREASURY			
Passed through Michigan Department of State			
Help America Vote Act	39.011	71I4001011	<u>35,000</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan State Police			
Local emergency planning committee (LEPC)	97.051	na	2,304
Part II Critical Infrastructure Protection - Stonegarden	97.004	2003 SHSGP	19,653
Part I State Homeland Security Grant - Equipment	97.004	2003 SHSGP Part I	39,899
State Homeland Security and Law Enforcement Terrorism Prevention	97.004	2004 HSGP	36,597
State Homeland Security Exercise Grant	97.004	2003 SHSGP	8,592
State Homeland Security Solution Area Planner	97.004	2003 SHSGP-SAP	13,164
State Homeland Security Training Grant	97.004	2003 SHSGP II	2,279
Civil Defense Subsidy	97.042	na	<u>17,821</u>
Total U.S. Department of Homeland Security			<u>140,309</u>
Total federal award expenditures			1,270,110
Subtract: program income reported as other revenue for financial statement purposes			(10,000)
Prior period adjustment for Section 5311 operating grant			(30,776)
Subtract: Rural Development loan, which is reported as loan proceeds for financial statement purposes			<u>(160,204)</u>
Total federal revenue per financial statements			<u>\$ 1,069,130</u>
			Concluded

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation-

The accompanying schedule of expenditures of federal awards includes the federal grant activity of *Cheboygan County*, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL OVER FINANCIAL
REPORTING CONTROL AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*; NO
REPORTABLE INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS**

May 13, 2005

County of Cheboygan Board of Commissioners
County of Cheboygan
Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***County of Cheboygan, Michigan*** (the "County"), as of and for the year ended December 31, 2004, and have issued our report thereon dated May 13, 2005. We did not audit the financial statements of the County of Cheboygan Road Commission component unit, which represents 100% of the total assets and 100% of the total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for that entity, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the County in a separate letter dated May 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Board of Commissioners, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A – 133**

May 13, 2005

Board of Commissioners
County of Cheboygan
Cheboygan, Michigan

Compliance

We have audited the compliance of *County of Cheboygan, Michigan* (the “County”), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The County’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County’s management. Our responsibility is to express an opinion on the County’s compliance based on our audit.

The County’s financial statements include the operations of the Cheboygan County Road Commission, which received \$1,107,720 in federal awards which is not included in the schedule for the year ended December 31, 2004. Our audit as described below, did not include the operations of the County of Cheboygan Road Commission because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County’s compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect County of Cheboygan's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations contracts, and grants. Reportable condition is described as follows:

The County did not comply with the documentation requirements for salaries and related benefits, charged to its major program, as established within the Office of Management and Budget (OMB) Circular A-87.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, others within the organization, the Board of Commissioners, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

COUNTY OF CHEBOYGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION I – SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of Auditor's report issued?	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
93.563	Title IV D
10.760	Rural Development Loan

Dollar threshold to distinguish between type A and type B programs?	\$300,000
Auditee qualified as a low risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2004-1	The County did not comply with the documentation requirements for salaries and related benefits, charged to its Title IV D program, as established within the Office of Management and Budget (OMB) Circular A-87.
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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

May 13, 2005

Board of Commissioners
County of Cheboygan
Cheboygan, Michigan

In planning and performing our audit of the basic financial statements of the *County of Cheboygan* as of and for the year ended December 31, 2004, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls, operating efficiency and other matters. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 13, 2005 on the financial statements of the *County of Cheboygan*.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed these comments and suggestions with various County personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to provide any other assistance that you may request.

Thank you for your business.

COUNTY OF CHEBOYGAN

MANAGEMENT COMMENTS AND RECOMMENDATIONS

DECEMBER 31, 2004

1) Review of Title IV-D Monthly Statements

The County's Friend of the Court and Prosecutor Departments receives federal grant revenue for child support enforcement (Title IV-D) from the State of Michigan. This grant requires the County to submit monthly reports which summarize the activity for that month for the Friend of the Court and Prosecutor Title IV-D programs. The County has contracted with Maximus to prepare these monthly statements. Information the County provides Maximus is submitted from the payroll department, Friend of the Court and Prosecutors office. Maximus prepares the required forms and returns the completed forms to the County for review and approval as evidenced by signatures. The County is responsible for submitting these reports to the State monthly. Through review of four of the reports filed in 2004, we noted immaterial differences between the fringe benefit amounts transmitted to Maximus and the amounts that were included in monthly reports submitted to the State caused by incorrect percentages used by Maximus. Incorrect reporting of these expenses could result in the County having to reimburse the State for grant funds received in excess of the allowable expenditures or the County not being reimbursed for the amount of allowable expenditures. We recommend that the County designate an employee responsible for the detailed review of these reports, which should include agreeing amounts provided to Maximus to the amounts actually included in the reports, prior to the Friend of the Court, Prosecutor and Administrator approving, signing and mailing these reports.

2) Required Payroll Documentation

The County expended more than \$500,000 in federal grant awards during the year, which resulted in required compliance with the provisions of Office of Management and Budget (OMB) A-133 (Single Audit Act) and OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments) these publications define the compliance requirements including, but not limited to, necessary documentation of costs charged to federal grants.

OMB Circular A-87 attachment B section 11h requires that there be support for all salaries and wages charged to federal grants. Employees that work on multiple activities must keep a record of time spent on each federal grant activity and complete weekly timesheets which records the amount of time spent on each federal grant activity. These timesheets (which are in addition to the timesheets used for payroll) need to be signed by the employee and a supervisor. Employees that work 100% on a single federal grant activity are required complete a time certification. These certifications need to be prepared at least semi-annually and need to be signed by the employee or the supervisor having first-hand knowledge of the work performed by the employee.

COUNTY OF CHEBOYGAN

MANAGEMENT COMMENTS AND RECOMMENDATIONS

DECEMBER 31, 2004

If the time sheets or the time certifications are not obtained for all federal grant activities, any salaries and related benefits charged to federal grants could be considered questioned costs and the County may be required to reimburse the grantor agency for all of the related salaries and benefits. We have provided a template to assist management in complying with this requirement.

3) **Bank statement reconciliations**

While testing monthly bank reconciliations for the District Court bank account it was noted that the District Court is only providing the current month's deposits and checks that cleared the bank statement to the finance department for input into the general ledger. All transactions occurring during the month are not being recorded in the month they occurred, which results in the incorrect timing of revenue and expenditure recognition. It is imperative that appropriate cutoff of receipts and disbursement be determined to provide accurate information on a monthly basis to management.

4) **Friend of the Court Bank Accounts**

The Friend of the Court maintains a bank account, registered in the County's name, used to deposit parental payments received for child support. All of the money deposited into this account is periodically wired to the State of Michigan by the Friend of the Court. Currently this activity is not being recorded in the County's general ledger system. We recommend that the County record this activity within an agency fund in the general ledger system, which will allow a more accurate accounting for the cash received for child support payments.

5) **Deficit Fund Balance**

At December 31, 2004, a deficit fund balance existed in the Child Care Probate Special Revenue Fund. This deficit will be reduced during 2005 with additional transfers from the General Fund. The County is required to formulate and file a deficit elimination plan with the State of Michigan Department of Treasury within 90 days after the year in which this deficit is identified.

COUNTY OF CHEBOYGAN

MANAGEMENT COMMENTS AND RECOMMENDATIONS

DECEMBER 31, 2004

6) SEC Rule 15C2-12 Disclosure Requirements

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. With the issuance of the bonds for the construction of the Road Commission building, the County is now subject to these reporting requirements. We recommend that the County establish a written plan and process to ensure that this report is completed and filed by July 31st of each year.

7) Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to pre-qualify for financing during the fiscal year. The County must submit their qualifying statement electronically using the Michigan Department of Treasury's website. The Finance Director must contact the Local Audit and Finance Division of the Department of Treasury at (517) 373-0660 to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by June 30, 2005.

8) Electronically Filing the Financial Statements

The County is required to file its audit report with the Michigan Department of Treasury (the "Treasury") by June 30, 2005. The Treasury has issued Numbered Letter 2005-2 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. Although this filing process is not mandated at this time, the Treasury is strongly recommending that all governmental units file their year end audit reports including the Auditing Procedures Report (496) and management comment and recommendation letter electronically. We have provided the necessary information, in this electronic format, to the Finance Director to enable the County to comply.